VZCZCXYZ0000
PP RUEHWEB

DE RUEHBU #0056/01 0122034
ZNR UUUUU ZZH
P 122034Z JAN 07
FM AMEMBASSY BUENOS AIRES
TO RUEHC/SECSTATE WASHDC PRIORITY 6954
INFO RUEHAC/AMEMBASSY ASUNCION PRIORITY 5844
RUEHBO/AMEMBASSY BOGOTA PRIORITY 1476
RUEHCV/AMEMBASSY CARACAS PRIORITY 1040
RUEHLP/AMEMBASSY LA PAZ JAN 4390
RUEHPE/AMEMBASSY LIMA PRIORITY 1939
RUEHME/AMEMBASSY MEXICO PRIORITY 1277
RUEHOT/AMEMBASSY OTTAWA PRIORITY 0452
RUEHQT/AMEMBASSY QUITO PRIORITY 0821
RUEHSG/AMEMBASSY SANTIAGO PRIORITY 0062
RUEHMN/AMEMBASSY MONTEVIDEO PRIORITY 6065
RUEHSO/AMCONSUL SAO PAULO PRIORITY 3090
RUEAIIA/CIA WASHINGTON DC PRIORITY
RHMFIUU/DEPT OF ENERGY WASHINGTON DC PRIORITY
RUEHC/DEPT OF LABOR WASHINGTON DC PRIORITY
RUEATRS/DEPT OF TREASURY WASHINGTON DC PRIORITY
RHMFIUU/HQ USSOUTHCOM MIAMI FL PRIORITY
RHEHAAA/NATIONAL SECURITY COUNCIL WASHINGTON DC PRIORITY
RUCPDOC/USDOC WASHINGTON DC PRIORITY

UNCLAS BUENOS AIRES 000056

SIPDIS

SENSITIVE
SIPDIS

EB/TPP/BTA/EWH FOR BETH LAMPRON
EB/TPP/ABT/ATP FOR MARSHA SINGER
EB/ESC/IEC FOR JEFF IZZO
PASS USTR FOR SUE CRONIN AND MARY SULLIVAN
WHA FOR WHA/BSC AND WHA/EPSC
E FOR THOMAS PIERCE,
PASS NSC FOR JOSE CARDENAS
PASS FED BOARD OF GOVERNORS FOR PATRICE ROBITAILLE
EX-IM BANK FOR MICHELE WILKINS
OPIC FOR GEORGE SCHULTZ AND RUTH ANN NICASTRI
TREASURY FOR ALICE FAIBISHENKO
USDOC FOR ALEXANDER PEACHER AND JOHN ANDERSEN
USCINCSO FOR POLAD

E.O. 12958: N/A
TAGS: ETRD ECON EAGR PREL AR
SUBJECT: ARGENTINA'S POST-CRISIS TRADE BOOM

REF: A. 05 BUENOS AIRES 858

¶B. 05 BUENOS AIRES 1562

¶1. (U) SUMMARY: Since the economic crisis of 2001/2, Argentine trade has grown quickly, and much more so than the economy overall. Total two-way trade has risen 85.0% since ¶2003. Argentina's leading trade partner remains Brazil, followed by the EU as a whole, and bilaterally by the U.S. and China for imports and Chile and the U.S. for exports. Agricultural products, especially soy, are heavily represented on the export side, though energy exports have risen with global oil prices. Imports are concentrated in intermediate capital goods, in particular machinery. Despite Argentina's burgeoningtrade, its share of global exports has fallen since 2002/3, and Argentina's trade surplus, while still large, has shrunk considerably, led primarily by changes in trade with MERCOSUR partners. Since export taxes on primary product exports contribute significantly to government revenue, the specter of lower international commodity prices looms large. A significant drop would threaten not only Argentina's trade surplus, but the GoA's fiscal surplus. END SUMMARY

-- ------
EXPORTS: GROWTH, WHAT THEY ARE, WHERE THEY'RE GOING

--- ------

¶2. (U) Argentine trade has grown rapidly following the 2002 economic crisis. Between 2003 and 2006, exports jumped from $29.6 billion per year to $45.8 billion (estimated), an increase of 54.9% (16.9%, 15.8%, and 14.5% by year); imports grew from $13.8 billion to $34.5 billion (estimated), a rise of 149.4% (62.2%, 27.8%, and 20.2% by year). Total two-way trade rose 85.0% in the same period. Despite the more rapid growth of imports, Argentina continues to enjoy a sizable trade surplus: 2006 will be the fifth consecutive year with a trade surplus of over $10 billion. Because the devaluation of the peso in 2002 significantly lowered GDP in dollar terms, trade as a share of GDP nearly doubled from 17.0% in 2001 to 33.4% in 2002, and rose to 36.8% in 2005.

¶3. (U) While Argentine exports are heavily concentrated in agricultural goods, the largest single category of exports (in broad terms, by HTS - Harmonized Tariff Schedule - chapter) is mineral fuels and oils (ch. 27), which totaled 16.4% of all exports in 2005, with a value of $6.6 billion. Agricultural goods overall (including leather and leather products), made up just under half (48%) of 2005 exports, and were worth $19.2 billion. Soy is by far the most significant in this area: soybean oil-cake alone was $3.8 billion (9.5% of exports, and the largest export by tariff line), and that plus soybeans and soy oil were $8.2 billion (20.5% of all exports). Meat, corn, and wheat also have large export shares, at 3.6%, 3.4%, 3.2% of total exports respectively. Leather and leather goods comprised 2.3% of all exports, worth $917 million. In manufacturing and industrial goods, vehicles (ch. 87) comprised the largest group, with $2.9 billion in exports (7.2%), led by diesel trucks and medium-sized cars. About 1.8% ($616 million) of all

non-petroleum exports were to the U.S. under the Generalized System of Preferences (GSP) rubric. While about two-thirds of agricultural exports have some value added (e.g., processed soy meal and oil vs. raw beans), the overall dependence on agriculture indicates that Argentine exports are not moving quickly up the value chain.

¶4. (U) Argentina trades mainly with its closest neighbors, three of which (Brazil, Paraguay and Uruguay) are co-members of MERCOSUR, the Southern Common Market, formed in 1991. Brazil dominates this trade, receiving $6.3 billion of Argentine goods in 2005, 15.8% of all Argentine exports. MERCOSUR as a whole (NOTE: not including Venezuela, which became a full member in 2006, though it has yet to adopt the common external tariff and other protocols of membership) received $7.7 billion in Argentine goods, or 19.1% of the total. While the value of total Argentine exports to MERCOSUR has risen from $5.7 billion in 2002, its share of Argentine exports has fallen from 22.2% (and 31.9% in 2000). The EU as a whole is currently Argentina's second largest export partner, receiving nearly $6.8 billion in goods in 2005, up 8.7% from 2004. (Spain was the leading recipient within the EU, and fifth overall, buying $1.8 billion in Argentine products in 2005.) Exports to Chile reached $4.5 billion in 2005, an 11.2% share, just $5.5 million ahead of the U.S. China became Argentina's fourth-largest export market in 2003, receiving $3.2 billion in goods - a 7.9% share - an increase of 189% over what it got from Argentina in 2002.

¶5. (U) Argentine exports to some countries are highly concentrated in certain products. For example, 2005 exports to China included $1.7 billion worth of soy beans, 75% of all such Argentine exports, 55% of all exports to China, as well as slightly more than the Argentine trade surplus with China ($1.6 billion). Exports to Chile and the U.S. were dominated by energy exports: $2.3 billion to Chile and $2.2 billion to the U.S. - a combined total of 69.1% of Argentine petroleum/gas exports, and about half of Argentine exports to each country. In the case of Chile, exports consisted mainly

of petroleum products ($1.6 billion, or 36.5% of exports) and natural gas ($440 million, 9.8% of exports, despite several interruptions in delivery - Ref B), while exports to the U.S. were mostly crude oil and unleaded gas. It's notable that volumes of hydrocarbons exports to both countries fell slightly in 2005, and that the higher value was driven entirely by the price increase. Forty-three percent of vehicle exports, worth over $1.2 billion, went to Brazil. (Septel will review the bilateral Argentine-Brazil auto pact.)

¶6. (SBU) Argentine exports have grown by an impressive 72% since 2002 and a leading factor in this export boom is certainly the 2002 devaluation of the Argentine peso (ARP), which has incented strong growth in Argentina's primary product - principally agricultural product - exports. For a decade before that, the ARP had been legally pegged to the dollar at a nominal one-to-one parity, which was both overvalued and, ultimately, unsustainable. At a current nominal value of roughly 3.10:1, the nominal ARP exchange rate is approximately 70% below its earlier parity value and is generally considered to be significantly undervalued. The current real value of the ARP is approximately half its real value the time of its 2002 devaluation.

¶7. (SBU) Argentina continues to apply a number of impediments to exports, including outright export bans (of beef and natural gas), export quotas, and high export taxes. While it is difficult to quantify their collective impact, these barriers have certainly constrained overall export growth. In this context, it is important to note that Argentina's share of world exports has fallen from 0.433% in 2001 and 0.399% in 2002 to 0.387% in 2005.

THE IMPORT SIDE OF THE STORY

¶8. (U) Argentine imports are more diverse than its exports, but are concentrated in intermediate capital goods, including machinery, electrical equipment, organic chemicals, and plastics, which together accounted for 41% of imports in 2005, worth $11.7 billion. Motor vehicles and parts were also significant imports, at $4.25 billion or 14.8% of imports. TV/radio receivers and transmitters were the most-imported specific item, at 4.0% of all imports with a value of $1.2 billion, followed by medium-sized autos at just under one billion USD (3.4%). Argentina also imported about $1.4 billion worth of hydrocarbon products, about 25% of the value of exports in the same general category.

¶9. (U) Just as Brazil is the primary recipient for Argentine exports, it is the main source of Argentina's imports, having provided 36% of them - $10.4 billion - in 2005. MERCOSUR as a whole supplied 39.5% of Argentine imports in 2005. While Argentina's share of exports to MERCOSUR partners has fallen in recent years, its share of imports has grown - from 32.2% in 2002 and 28.3% in 2000. (Brazil supplied 28.0% in 2002 and 25.5% in 2000. Argentina's share of imports from Uruguay and Paraguay fell from a combined 5.4% in 2000 to 3.4% in 2002 and 2005, with each country losing 1% share.) The value of Argentine exports to MERCOSUR increased 35% from 2002 to 2005, while value of its imports from MERCOSUR grew 291%. The result has been a shift from a trade surplus with MERCOSUR of $2.8 billion in 2002 to a trade deficit of over $3.6 billion in 2005.

¶10. (U) Of intermediate capital goods imports, Brazil shipped $3.5 billion to Argentina in 2005, 29.8% of those categories and 12.2% of all imports. The U.S. (which supplied $4.5 billion, or 15.7%, of all imports) was also a significant source of those goods, providing $2.5 billion worth (21.4% of those categories and 8.7% overall). The leading category of imports from Brazil, however, was vehicles: $2.9 billion

worth, 68.4% of all vehicles and 10.1% of all imports. From a low base, energy imports from Bolivia have jumped to $240 million (0.8% of all imports) in 2005, $10 million more than from Brazil and $20 million more than from Paraguay. (The Paraguayan total is mainly electrical energy generated by the shared Yacyreta dam.) $4.8 billion of imports came from the EU, led by $1.3 billion from Germany, the fourth largest single exporter to Argentina.

TWIN SURPLUSES - HOW FIRM A FOUNDATION?

¶11. (U) Argentina's GDP growth since the 2001/2002 crisis - projected to be about 50% in real terms from the end of 2002 to the end of 2006 - has been supported by the nation's significant increase in export volume and value. This GDP growth, in turn, has helped drive an even larger increase of imports. While projections of 2006 exports are 78% higher than 2002 exports, import growth over this same period is projected at over 283%. As a result, while Argentina still enjoys a trade surplus ($11.3 billion in 2005, projected to be $21 million less in 2006), this surplus is shrinking, down from $15.7 billion in 2003. Maintaining twin trade and fiscal surpluses has been a cornerstone of the GoA's economic policy mix. While global commodity prices stand at record levels due to unprecedented demand from China and India, any significant drop in commodity prices would threaten both since GoA revenue is highly dependent on export taxes on Argentine primary commodity exports.)

COMMENT

¶12. (SBU) The GoA frequently cites the country's "export boom" as a key factor in its now four-year-long economic recovery, and the value of Argentine exports has indeed grown by an impressive 72% since 2002. While this export boom has certainly been an important contributor to overall GDP growth, the fact remains that Argentina's world export share has fallen in a period when circumstances - including a relatively undervalued nominal exchange rate and high global commodity prices for its principal primary product exports - are highly favorable. The GoA's reliance on revenues from high and distortive export taxes and its variable imposition of outright export bans on beef and natural gas have been factors in constraining export growth. To be fair, on the import side, Argentina has taken some positive steps, including unilaterally dropping in 2003 the 10% MERCOSUR common external tariff on capital goods imports in an effort to enhance the nation's productive capacity. But other moves to end-run MERCOSUR disciplines via the negotiation of "voluntary" quotas with MERCOSUR partners when imports rise quickly make clear that Argentina's commitments to the efficiency and wealth benefits of liberalized trade remain subordinate to domestic political priorities.
WAYNE